

SOLID LEASABLE MINERAL SYSTEM
(SLMS)
INSPECTION RECORD

Mine Name (E135): Haystack Exploration Tract . Date of Inspection: March 18, 1988
 Lessee (E24): Todilto Exploration

Inspector(s): Roger Baer, BLM Company Representative(s): None
Jim Anallid, BIA

Inspection Type: Mining Related ☐ / Exploration Related ☒ / Inactive Tract ☐ /
 (check one) (FY86 E105) (FY86 E107) (FY86 E109)

Serial No. (E1)	Holder of Primary Tract Interest (E24)	Tract Type (E11)	Commodity (E9)	Inspection Time (E106, E108, E110)
NOO-C-14 -20-5681	Same	Lease	Uranium	2.3
-20-8396	Same	Lease	Uranium	2.3

Inspection Time: Preparation Time: 0.5
 (calculation) Travel Time (both ways): 3.0
 Onsite Time: 0.8
 Reporting Time: 0.2
 Clerical: 0.1
 TOTAL: 4.6
 (E106, E108, E110)

NOTE: If more than one tract is inspected on the same trip, the inspection should be prorated to all tracts inspected on a percentage basis. Show proration calculation on back. Example: Tract A and Tract B take 10 hours to inspect, but 75% of the inspection was on Tract A. Inspection time for Tract A is (75% of 10 hrs.) 7.5 hours and Tract B is 2.5 hours.

Was a condition of noncompliance encountered? Yes ☐ No ☒

Was an undesirable event encountered? Yes ☐ No ☒

NOTE: If "Yes" to either of the above, prepare the appropriate report.

Purpose of Inspection: Annual Inspection - Open declines and radiation near homes continues to be hazard to residents in area. Older allottee showed up collapse pit that open up this winter, probably on AEC section.

cc: Area Director, NAO
 Superintendent, ENA
 Lease File

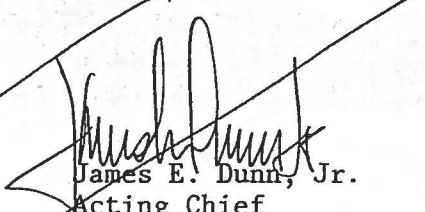
SEP 2

memorandum

RECEIVED

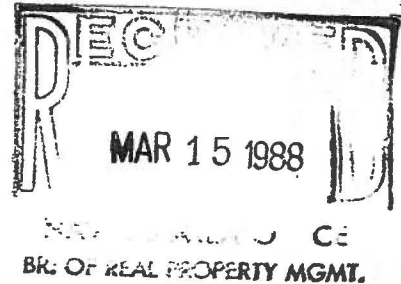
DATE: February 16, 1988 9 PM 2:42
 REPLY TO: Assistant Chief, Branch of Energy and Mineral Resources, Golden CO
 ATTN OF:
 SUBJECT: MMS Audit Report of Lease No. N00-C-14-20-8396
 TO: Area Director, Navajo Area Office

Enclosed for your final disposition is MMS's Audit Report on subject lease(s). Additional royalties totaling \$424.13. Late payment charges of \$175.24 have been (billed)(paid).


 James E. Dunn, Jr.
 Acting Chief

cc: Eastern Navajo Agency - Audit w/attach
 Audit File (1)

2874





United States Department of the Interior

MINERALS MANAGEMENT SERVICE
LAKEWOOD AREA COMPLIANCE OFFICE
P O BOX 25165, MS 626
DENVER, COLORADO 80225

DATE
MADE IN
AMERICA
DEC 30 1 45 PM '87
GY & MINERALS

IN REPLY
REFER TO
MMS-RCD-L
MS 626

Memorandum

To: Area Manager, Rio Puerco Resource Area Office, Bureau of Land Management

Through: Chief, Royalty Compliance Division

From: Area Manager, Lakewood Area Compliance Office

Subject: Revised Report on Audit of Todilto Exploration and Development Corporation - Navajo Allotted Lease N00-C-14-20-8396 ✓

By memorandum dated October 18, 1985, we reported to you on the results of our audit of Navajo Allotted Lease N00-C-14-20-8396, operated by Todilto Exploration and Development Corporation (Todilto). We conducted the audit in response to your May 1, 1985, request that the Minerals Management Service (MMS) audit the lease. Subsequent to our memorandum, Todilto provided us information which modified our initial findings. Our revised report summarizing the results of the audit and reasons for modification of our original findings follows.

The objectives of the audit were to assure (1) that all solid minerals produced from Navajo Allotted Uranium Lease 46-008396 had been properly accounted for; and (2) that royalties were computed in accordance with applicable Federal laws, regulations, and directives for solid minerals and the lease agreement. The examination was accomplished in accordance with generally accepted auditing standards and the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions," issued by the Comptroller General of the United States, and included such tests as deemed appropriate under the circumstances. The audit covered the period of April 9, 1980, through April 19, 1985.

Our audit included review of advance rentals due and paid, minimum royalties due, production royalties due and paid, amounts applied against the minimum royalties, and the minimum royalties paid for Navajo Allotted Uranium Lease 46-008396 located in McKinley County, New Mexico. Fieldwork was completed at Todilto's office in Albuquerque, New Mexico.

Findings and Conclusions

During the audit, certain discrepancies were identified, resulting in potential underpayments due the Bureau of Indian Affairs (BIA) in the amount of \$2,798.49. There were two reasons for the underpayments. Todilto miscalculated the selling price per pound for shipments made in February 1981

and March 1981 (the March 1981 shipment was actually sold in April 1981). Additionally, Todilto applied royalty due on March 1981 production against minimum royalty paid for the 1981 lease year (April 9, 1981, through April 8, 1982). The March 1981 production involved Lots 9499 and 9505 which were actually assayed on April 27 and April 30, 1981, and subsequently sold. The MMS contended that the royalty value for those lots should have been applied to minimum royalty paid in the 1980 lease year, April 9, 1980, through April 8, 1981, because the lots had been produced and shipped in March 1981. Later, MMS reevaluated its position which is discussed later in this report.

By issue letter dated October 18, 1985, MMS notified Todilto that \$2,798.49 of additional royalties were due on the subject lease for the audit period April 9, 1980, through April 8, 1985. However, after review of Todilto's response, dated December 11, 1985, we concluded that only \$875.99 was due, as shown on the attached Statement of Differences (Attachment 3). Todilto paid \$451.86 with its December 11, 1985, letter which reduced the amount of additional royalties still owed to \$424.13. Todilto subsequently paid the \$424.13 on January 30, 1987. The MMS assessed \$175.24 interest on late payments which was paid by Todilto on June 22, 1987.

Incorrect Selling Price Calculation

During February and March 1981, Todilto shipped uranium ore to the purchaser, United Nuclear Corporation (UNC), from several Federal and Indian leases. At the end of each month, the "Weighted Average Selling Price" (WASP) for sales from all leases was used by Todilto to calculate the royalties due, instead of using the correct WASP for each lease. For February 1981, Todilto used a WASP of \$20.082 instead of \$21.53, and for March 1981, it used \$20.424 instead of \$18.98. This action resulted in corresponding inaccurate royalty calculations for each month involved.

<u>Month Shipped</u>	<u>Royalty Value</u>		<u>Difference</u>
	<u>Per MMS</u>	<u>Per Todilto</u>	
02/81	\$2,416.15	\$2,208.04	\$ 208.11
03/81	\$3,649.34	\$3,991.92	\$<342.58>
	<u>\$6,065.49</u>	<u>\$6,199.96</u>	<u>\$<134.47></u>

(See attached Schedules I and II for details of MMS calculations, Attachments 1 and 2)

Selling price computation errors were acknowledged by Todilto, and a revised schedule to its December 11, 1985, letter corrected all amounts except for the month of March 1981 (April 1981 sales) for Lots 9499 and 9505. Todilto's schedule shows a value of \$3,634.26 for March 1981; but, MMS calculations show \$3,649.34, a difference of \$15.08 (undervalued by Todilto).

Production Royalties Misapplied to Minimum Royalties

We have reevaluated MMS's position and concur that the April 1981 sales value of \$3,649.34 should be applied against minimum royalty in Lease Year 1981 (April 9, 1981, through April 8, 1982). Although actual production occurred in Lease Year 1980, the value was established in April 1981 after the beginning of the 1981 lease year and was reported to MMS when it became known.

The lease contract, approved April 9, 1980, requires that production during the lease year shall be credited against minimum royalty. However, past acceptance of "sales" as "production" by MMS and its predecessor [Conservation Division, U.S. Geological Survey (USGS)] has established precedent in referring to oil and gas "production" as sales. The Conservation Division Manual (CDM), an instructional document of USGS, (CDM 647.13.3A, Variable Royalty Rate and Well Count, page 2) provides in part:

"In calculating a royalty rate, production and sales are generally considered to be the same thing, with the sales figures being used to calculate all royalty rates even though the word "production" may be used in this chapter."

Therefore, this precedent will also be accepted and applied relative to this solid mineral audit.

As a result of the above-mentioned change, a \$2,056.97 net overpayment of production royalties created a credit for Lease Year 1981 (see attached Statement of Differences). This amount was used to offset the underpaid 1984 minimum royalty of \$2,932.96 and was considered in determining the final royalty amount due of \$424.13.

The MMS has collected all royalties and interest assessments relative to this audit; and, therefore, we consider this a closed case.

If you have any questions regarding this matter, please call the undersigned at (303) 236-1055 or FTS 776-1055.

Larry M. Crow
Larry M. Crow

3 Attachments

cc: Royalty Management Coordinator

Mr. Del Brewer
Royalty Management Coordinator
Office of Energy and Mineral Resources
Bureau of Indian Affairs
730 Simms, Room 239
Golden, Colorado 80401

MMS Recomputation Schedule I (Revised)

Sales Price and Royalty Calculation

Lot No. 9449

February 1981

Value Per Dry Ton Calculation:

Assay x 20 = pounds per dry ton

.129 x 20 = 2.58 pounds

Price per pound = \$21.53 1/

\$21.53 x 2.58 = \$55.5474 (Value per dry ton)

Royalty Calculation:

.0005 x \$55.5474 = .027774 + .06 = .087774

.087774 x \$55.5474 = \$4.875617 (Royalty value per dry ton)

\$4.875617 x 495.5585 dry tons = \$2,416.15 2/

1/ From table attached to Ore Purchase Agreement

2/ This amount was applied against minimum royalty in Lease Year 1980 (see Attachment 3)

MMS Recomputation Schedule II (Revised)

Sales Price and Royalty Calculation

Lot No. 9499 & 9505

March 1981 (Sold in April 1981)

Weighted Average Assay Value (WAAV) Calculation:

	<u>Dry tons</u>	<u>U308</u>	<u>Factor</u>
Lot 9499	807.1615	.108	87.173
Lot 9505	346.5730	.096	+33.271
	<u>1,153.7345</u>		<u>120.444</u>

Total factor / total dry tons = WAAV

$$120.444 / 1,153.7345 = \underline{.1044}$$

Value Per Dry Ton Calculation:

$$.1044 \times 20 = 2.088 \text{ pounds per dry ton}$$

$$\text{Price per pound} = \$18.98 \text{ } \underline{1/}$$

$$\$18.98 \times 2.088 = \$39.63 \text{ (Value per dry ton)}$$

Royalty Calculation:

$$.0005 \times \$39.63 = .019815 + .06 = .079815$$

$$.079815 \times \$39.63 = \$3.163068 \text{ (Royalty value per dry ton)}$$

$$\$3.163068 \times 1,153.7345 \text{ dry tons} = \$3,649.34 \text{ } \underline{2/}$$

1/ From attachment to Ore Purchase Agreement2/ \$3,267.60 of the \$3,649.34 was applied against minimum royalty in Lease Year 1981 (see Attachment 3)

Todilto Exploration and Development Corporation
Statement of Differences
Navajo Allotted Lease 46-008396

Minimum Royalties (MR) and Production Royalties (PR)
For Lease Years (LY) April 9, 1980, through April 8, 1985

	Royalties		Royalty Paid	Balance (LY & All LYs)
	MR Due	PR Due and <Credits> Against MR		
LY 1980 (4-9-80/4-8-81)				
MR	\$3,267.60	\$ -0.00	\$3,267.60	\$ -0.00
PR 2/81	-0.00	2,416.15	-0.00	2,416.15
Credit against MR	-0.00	<2,416.15>	-0.00	<2,416.15>
LY '80 Balance	<u>\$3,267.60</u>	<u>\$ -0.00</u>	<u>\$3,267.60</u>	<u>\$ -0.00</u>
LY 1981 (4-9-81/4-8-82)				
MR	\$3,267.60	\$ -0.00	\$3,267.60	\$ -0.00
PR 4/81	-0.00	3,649.34	-0.00	3,649.34
PR 6/81	-0.00	493.65	-0.00	493.65
Credit against MR	-0.00	<3,267.60>	-0.00	<3,267.60>
Payment 5/22/81	-0.00	-0.00	2,932.36	<2,932.36>
LY '81 Balance	<u>\$3,267.60</u>	<u>\$ 875.39</u>	<u>\$6,199.96</u>	<u>\$<2,056.97></u>
LY 1982 (4-9-82/4-8-83)				
MR	\$3,267.60	\$-0.00	\$3,267.60	\$-0.00
PR	-0.00	-0.00	-0.00	-0.00
LY '82 Balance	<u>\$3,267.60</u>	<u>\$-0.00</u>	<u>\$3,267.60</u>	<u>\$-0.00</u>
LY 1983 (4-9-83/4-8-84)				
MR	\$3,267.60	\$-0.00	\$3,267.60	\$-0.00
PR	-0.00	-0.00	-0.00	-0.00
LY '83 Balance	<u>\$3,267.60</u>	<u>\$-0.00</u>	<u>\$3,267.60</u>	<u>\$-0.00</u>
LY 1984 (4-9-84/4-8-85)				
MR	\$3,267.60	\$-0.00	\$ -0.00	\$3,267.60
PR	-0.00	-0.00	-0.00	-0.00
Payment 6/8/84	-0.00	-0.00	334.64	<334.64>
LY '84 Balance	<u>\$3,267.60</u>	<u>\$-0.00</u>	<u>\$334.64</u>	<u>\$2,932.96</u>

Royalty Due for LYs 4-9-80 through 4-8-85

\$875.99

Less: 12/11/85 payment in response to
issue letter dated 10/18/85

<451.86>

Additional Royalties Due for LY's 4-9-80 through 4-8-85

\$424.13 ^{1/}

^{1/} Todilto paid this amount on January 30, 1987